GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:5064
ANSWERED ON:11.05.2007
TAX-GDP RATIO
Madhwaraj Smt. Manorama

Will the Minister of FINANCE be pleased to state:

(a) whether tax-GDP ratio in India is less as compared to other countries like Brazil, South Africa, etc.;

(b) if so, the details thereof;

(c) whether revenue foregone under the central tax system accounts for about 50% of total tax collections in 2005-06 and 2006-07;

(d) if so, the details thereof;

(e) whether the Kelkar Committee had recommended the phasing out of exemptions;

(f) if so, the details thereof; and

(g) the steps taken by the Government in this regard?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM)

(a) & (b): The gross tax-GDP ratio in respect of direct taxes, after rising from 3.81 per cent in 2003-04 to 4.25 per cent in 2004-05, has increased further to 4.63 per cent in 2005-06 and to 5.60 per cent in 2006-07.

In regard to indirect taxes, the gross tax-GDP ratio, after rising from 9.2 per cent in 2003-04 to 9.8 per cent in 2004-05, has increased further to 10.5 per cent in 2005-06 (RE) and to 11.4 per cent in 2006-07.

This Department does not maintain such details for other countries.

(c) & (d): Yes, Sir. Revenue foregone as a percent of gross tax collection is estimated to be 56.43% in financial year 2005-06 and 50.27% in financial year 2006-07 (includes both direct & indirect taxes which is reflected in the Budget document). The revenue foregone is estimated to be Rs. 2,06,700 crore in financial year 2005-06 and Rs.2,35,191 crore in financial year 2006-07.

(e) & (f): The Kelkar Committee in its report on direct taxes had recommended the phasing out of all exemptions in the Income-tax Act which had outlived their utility. It had recommended moderate tax rates along with few exemptions to bring about a modern and stable tax regime. It had specifically recommended for the elimination of deduction under Section 80L for interest income; exemption under Section 10 in respect of interest income from bonds, debentures etc.; deduction under Sections 10A and 10B available to units exporting from software technology parks, special economic zones etc. and to 100% export oriented units; deduction under Section 33AC available to shipping companies; deduction under Section 80-1A, 80-1B, 80JJA, 80JJAA etc.

The Kelkar Committee had further recommended removal of customs and excise duty exemptions, especially the end- use based ones, as far as possible.

(g): Review of exemptions/deductions is an ongoing process and efforts are being made to weed out exemptions/deductions particularly those that are end-use based or have outlived their utility or need certification or give rise to disputes. Further, some exemptions have also been allowed to sunset.